

OVERVIEW

This section describes the City of Detroit governmental structure, financial procedures, budget development process, and long-term operational and financial policies, and it highlights recommended items in the 2010-11 budget.

GOVERNMENTAL STRUCTURE

Pursuant to the provisions of the State Constitution, Detroit is a home rule city with significant independent powers. In accordance with the Charter, the governance of the City is organized in two branches: the executive branch, which is headed by the Mayor, and the legislative branch, which is composed of the City Council and its agencies. The Charter also provides for an independent City Clerk who serves as Clerk to the Council and Chairperson to the Elections Commission. The Mayor, City Council members and the Clerk are elected every four years, with the most recent regular election for these positions in November 2009. There is no limit to the number of terms that may be served by elected officials.

The City Charter provides that the voters of the City reserve the power to enact City ordinances by initiative, and to nullify ordinances enacted by the City by referendum. However, these powers do not extend to the budget or any ordinance for the appropriation of money, and the referendum power does not extend to any emergency ordinance. The City is operating under a Charter created in 1974 Charter, with few amendments added by the 1994-1996 Commission. In November 2009, a Charter Revision Commission was seated by the City electorate, and it has a three year term to issue recommendations for approval by the

City electorate.

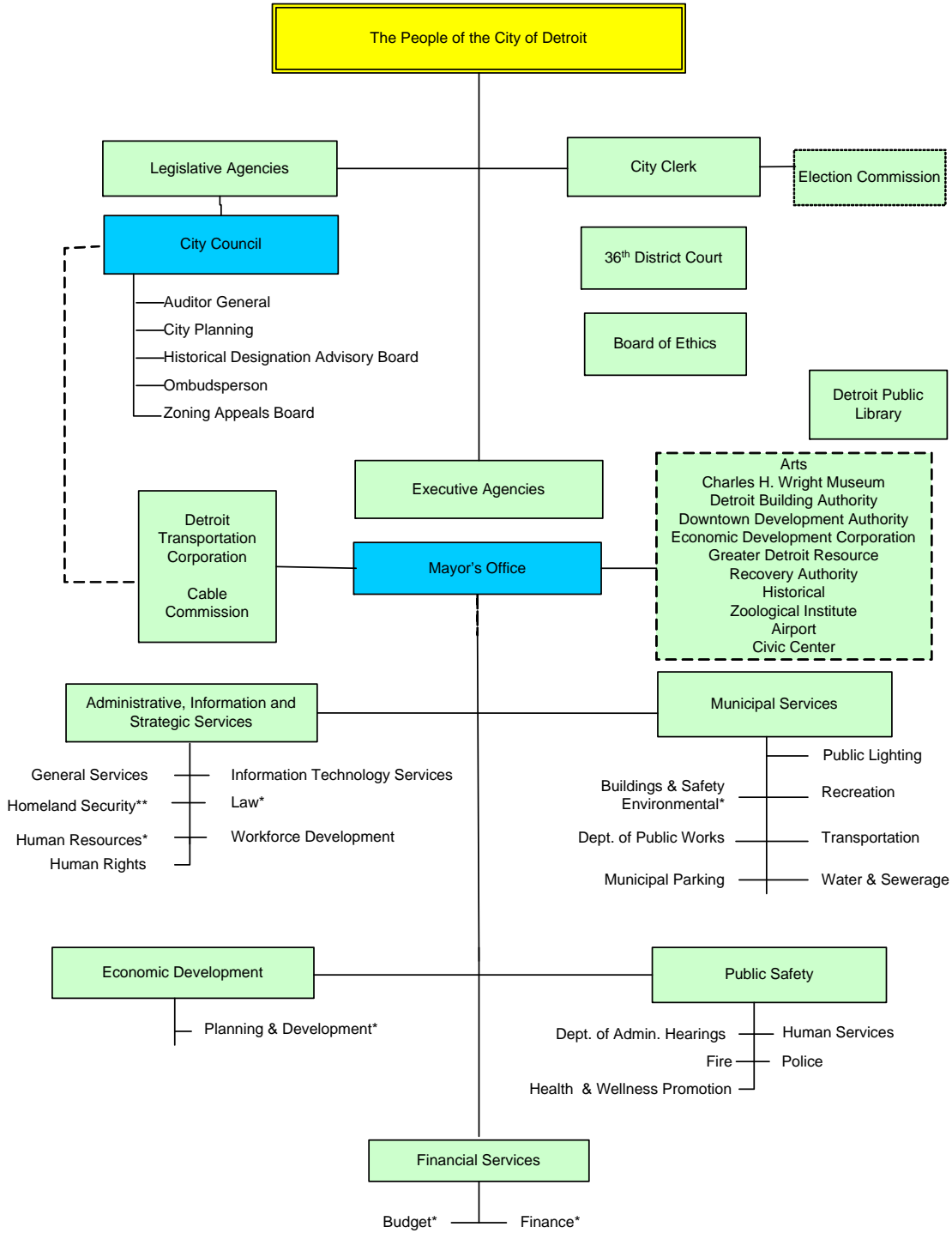
The Mayor, as chief executive of the City, has control of and is accountable for the executive branch of City government. The Charter grants the Mayor broad managerial powers, including appointment of most department directors and deputy directors. The Mayor has an office of staff.

The Charter delegates to the executive branch the responsibility for implementation of most programs, services and activities. An Executive Organization Plan (EOP) must be on file setting forth all agencies of the executive branch and assigning authorized programs, services and activities to each, including the six staff departments (in Article 6), six operating departments and a variety of other specified functions (in Article 7). The Mayor initiates changes to the EOP through an amendment process.

The EOP calls for 29 operating and staff departments in the executive branch. The staff departments are: Budget, Environmental Affairs, Human Resources, Finance, Law and Planning. Other departments include: Police, Fire, General Services, Health and Wellness Promotion, Office of Homeland Security, Public Lighting, Public Works, Recreation, Transportation, and Water and Sewerage. (The City's organization chart is pictured.)

Water and Sewerage Department policies are set by a Board of Commissioners. Early in 2000, a judge appointed the Mayor Special Administrator of the Wastewater Treatment Plant to prevent recurrent environmental noncompliance. This status was removed in January 2006.

Organization of City of Detroit Agencies, proposed for FY 2010-11



* Charter-mandated staff department
 ** Does not have departmental status

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The City's three cultural departments are administered through operating agreements with non-profit corporations. The Detroit Institute of Arts is administered by the Founders' Society. Effective March 2006, the Detroit Zoological Institute is administered by The Detroit Zoological Society, and the Detroit Historical Museum and Dossin Museum are administered by the Detroit Historical Society. Historic Eastern Market was formerly operated by the Recreation Department, and is now also administered by a non-profit, the Eastern Market Corporation, under a management and promotion agreement reached June 2006. The Charles Wright Museum of African American History continues to be tax supported, as does the Anna Scripps Whitcomb Conservatory (on Belle Isle), which is operated by the General Services and Recreation Departments. FY 10-11 Recommended Budget includes the operation of Cobo Center by a regional authority and Airport operated by a management agreement.

The City administers a number of social programs through its Human Services, Workforce Development and Recreation departments. Generally, these programs are funded from Federal or State of Michigan grants or from funds received from the private sector. The Recreation Department is general funded.

There are also seven independent agencies with service delivery responsibilities in the EOP, and there are four local authorities with a direct financial relationship to the City.

Financial operations of the City are carried out through the appointed positions of Finance Director and Budget Director. The Finance Director is the Chief Financial Officer of the City overseeing most financial

functions of the City, including coordinating financial activities, collecting and disbursing funds, directing accounting procedures, purchasing goods and services and the assessing of property in the City. The Budget Director is responsible for the development of program and service objectives, controlling and supervising the expenditure of funds, long term financial planning, and assisting the Mayor in the preparation of the City's annual budget and five-year capital improvement agenda.

The City Council, composed of nine members elected at large for 4-year terms, is the City's legislative body. The City Council has the power to override the Mayor's veto with a two-thirds majority vote of its members. Agencies that aid the City Council in its duties are described below.

The Auditor General is appointed for a term of 10 years by a majority of City Council members serving and may be removed for cause by a two-thirds majority vote. Any person who has held the position of Auditor General is not eligible for reappointment. By Charter, the major duty of the Auditor General is to audit the financial transactions of all City agencies; however since 1980 the City has retained independent accounting firms to perform that function. State law requires annual audits, although by Charter, internal audits are required only every 2 years. The Auditor General may investigate the administration and operation of any City agency and prepares various reports, including an annual analysis for the City Council of the Mayor's proposed budget.

The Ombudsperson is appointed for a term of 10 years by a two-thirds majority of City Council members for the purpose of investigating any official act of any agency (except elected officers) that aggrieves any

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person, and may only be removed for cause by a two-thirds majority vote of Council.

The City Planning Commission, consisting of nine members appointed by the City Council for 3-year terms, advises the City Council on such matters as the annual capital budget, certain development or renewal projects and proposals for the demolition, disposition or relinquishment of, or encroachment upon, public real property or public interests in real property.

The City is responsible for the financial and administrative affairs relating to the 36th District Court, Michigan's largest limited jurisdiction court, handling over 450,000 criminal, traffic, civil and parking cases filed in the City each year.

Local School Boards are separate local jurisdictions in Michigan. The Detroit Public School District has an elected governing board, but is presently under the direction of an emergency financial manager appointed by the State of Michigan Governor.

Effective September 21, 2001, the Detroit Housing Commission began acting as a public body pursuant to State law.

FINANCIAL PROCEDURES

The City's accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The accounting and financial reporting policies of the City conform to generally accepted accounting principals (GAAP) and reporting standards as promulgated by the Governmental Accounting Standards Boards (GASB). Each department and agency receives financial information along appropriation, organization, program and project lines, but in an integrated environment. This

information is used to allocate financial resources and to control actual expenditures in relation to the amended budget. In addition, historical information from these reports can be used for analysis and preparation of the annual financial report.

The City utilizes the Detroit Resource Management System (DRMS) to record and process financial information. DRMS is now used to conduct business for all City core financials (purchasing, accounts payable, accounts receivable and general ledger), as well as to track applicants for employment and for budget processes. The Detroit Human Resources Management System (DHRMS) is handling payroll and employment-related functions for ten departments. The time capture part of the program will be completely implemented in 2010-11.

Basis of Accounting

The City's financial statements are prepared in conformity with generally accepted accounting principles. "Basis of accounting" refers to the point at which revenues and expenditures are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Except for the City's Enterprise Funds and Pension Funds (which are accounted for on the accrual basis), the City's funds and accounts are maintained and reported on the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this period, the City considers revenues to be available if they are

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collected within 60 days from the end of the current fiscal year, except for grants and trade receivables, which are 180 and 90 days, respectively. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. Significant revenue sources susceptible to accrual include property taxes, income taxes, utility taxes, and interest. All other revenue sources are considered to be measurable and available only when cash is received.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statement to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Basis of Budgeting

The Budget is prepared on essentially the same principles as the accounting system. The General Fund is budgeted on a modified accrual basis and enterprise funds on the accrual basis. The major differences between the budgeting and accounting basis are: 1) encumbrances are recorded as expenditures (budget basis) rather than as a reservation of fund balance (accounting basis); 2)

compensated absences (accrued but unused leave) are not reflected in the budget; 3) depreciation expense is not included in the budget basis. The Charter requires that the Budget is based on Programs, and budget appropriations for the most part reflect programs, except that overhead costs of activities are not apportioned in allocations.

Fund Balance

The fund balances of the General, Special Revenue and Capital Projects Funds have been classified to reflect certain limitations and restrictions. Reserves for Inventories are equal to the amount of the inventories and signify that such assets are not presently available for appropriation and expenditure. While the City is not required to carry unliquidated encumbrances past the end of the fiscal year, it sets aside, within each respective fund balance, an amount equal to the unliquidated encumbrances that the City wishes to carry forward. In the succeeding year, the Budget is increased by an amount sufficient to cover the unliquidated encumbrances and these encumbrances are reinstated. Unliquidated appropriations represent amounts appropriated for liquidation of encumbrances and for other commitments not liquidated by year-end and carried forward to the succeeding year's budget. Any remaining balance constitutes an unappropriated surplus. In accordance with a City ordinance, one-half of any unappropriated surplus is transferred to a Budget Stabilization Fund with the balance being available for other appropriations in the following fiscal year. Any unappropriated deficit is funded in the succeeding fiscal year.

The Budget reflects half of this General Fund balance as a prior year surplus (revenue in the Non-Departmental budget) or deficit (appropriation in the Non-

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Departmental budget). All other Funds do not include a Prior Year Fund Balance.

Budget Stabilization Fund - In 1978, the State Legislature authorized municipalities to establish budget stabilization funds for the purpose of providing a method to stabilize financial operations, especially during cyclical economic periods. In 1979, the City, by ordinance, established the Budget Stabilization Fund to cover General Fund deficits, to restore reduction in the number of employees and to cover expenses arising because of a natural disaster. One-half of the General Fund surplus is to be appropriated to this fund in the fiscal year following the year that a surplus is experienced, up to the lesser of either 15% of the City's most recent General Fund budget or 15% of the average of the City's five most recent General Fund Budgets. The Budget Stabilization Fund had a balance of \$0.

This fund is not reflected in the Budget.

GASB 34 Activities

Government Accounting Standards Board Statement #34 establishes new requirements for the annual financial reports of state and local governments. The City has taken steps to improve the descriptiveness and usefulness of its base financial information, starting with the June 30, 2004 CAFR using the newly prescribed financial reporting requirements.

BUDGET PROCESS AND CONTENT

The general content and the process of developing the City's annual budget are prescribed by the City Charter. The City's annual budget constitutes a financial plan for the next fiscal year, which is required to set forth estimated revenues from all sources and all appropriations. Proposed capital

appropriations are included. The City estimates a prior year surplus or deficit for the General Fund, which reflects the ending financial position for the prior year (the "fund balance"). Any deficit during the preceding year is entered into the budget for the next fiscal year as an appropriation in accordance with the City Charter. One-half of any surplus is credited to the Budget Stabilization Fund with the remainder being included as a revenue in the following year. The total of proposed expenditures cannot exceed the total of estimated revenues so that the budget as submitted is "balanced".

Budget Development Calendar

The City Charter, since its 1997 revision, requires before November 1 of each year and prior to submitting a proposed annual budget (by December 8), that the departments of Police, Fire, Public Works, Water and Sewerage, Recreation, Health and Wellness Promotion, and Public Lighting conduct a public meeting to review programs, services and activities to be included in the budget and to receive public comment. A general summary of these departments' programs, services and activities funded in the current fiscal year, along with the date, time and place of the meeting, must be published in a daily newspaper of general circulation at least ten days before the meeting.

Budget staff organizes the meetings every October with different community partners as hosts (for all departments except Water and Sewerage, which holds its own public meetings). In some years, Budget staff also meets with high school classes, and administers a *Survey of Citizen City Service Priorities* through community organizations, City facilities, and the City's website.

The initial budget, which includes all department estimates of revenues and

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expenditures required for the fiscal year beginning July 1, is submitted to the Mayor by the Budget Department on or before the preceding February 20. The Mayor may revise the budget prior to submitting it to the City Council on or before April 12, the date established by City ordinance.

Prior to approval of the budget, the Auditor General prepares an analysis of the proposed budget, and City Council holds hearings with various agency heads and a public hearing. The City Council may amend the budget as presented by the Mayor, on or before May 24. Any Mayoral veto of City Council amendments may be overridden by a two-thirds vote of the City Council members. The City Council's reconsideration of the budget must be completed within the longer 3 calendar days or 2 business days following the maximum return date of the budget by the Mayor and any Mayoral veto.

Budget Adoption

The adoption of the budget provides for: 1) appropriations of specified amounts from funds indicated, 2) a specified levy of the property tax, and 3) provision for the issuance of bonds specified in the capital program. The budget document as adopted becomes the basis for establishing revenues and expenditures for the fiscal year following the fiscal year of passage.

Appropriations - The Charter requires that appropriations be made in lump sums to the

agencies for specific programs, services or activities or to additional classifications as the Mayor may recommend. Within an appropriation, the Mayor is given the responsibility of allocating financial resources to labor, equipment, supplies and materials in a manner which appears most suitable and economical in a given situation. However, the accounts of each agency are maintained in such detail as required by generally accepted standards of financial reporting.

Budget Revisions

The appropriation is a fixed expenditure and may not exceed the original appropriated level without City Council approval. If during the fiscal year the Mayor advises the City Council that there are revenues available for appropriation in excess of those estimated in the budget, the City Council may make supplemental appropriations for the year up to the amount of the excess. In the case of revenue shortfalls, the Mayor may request that the City Council decrease certain appropriations. The Mayor is under no obligation to spend an entire appropriation. Also, at any time during the fiscal year, the City Council, upon written request by the Mayor, may transfer all or part of any unencumbered appropriation balance among programs, services or activities within an agency or from one agency to another.

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BUDGET CALENDAR FOR FISCAL YEAR 2010-2011

The *VARIOUS OFFICERS, DEPARTMENTS, COMMISSIONS AND BOARDS* shall complete their estimates of requirements for each activity during the ensuing fiscal year. On or before Tuesday, December 8, 2009

The *BUDGET DIRECTOR* shall make up and transmit to the Mayor a tabulation of such estimates. On or before Friday February 19, 2010

The *MAYOR* shall consider the budget and may revise or alter same, to be completed and returned by him to the Budget Director for tabulation. On or before Friday March 26, 2010

The *BUDGET DIRECTOR* shall retabulate the revision and the *MAYOR* shall transmit the revised budget to the City Council. On or before Monday, April 12, 2010

The *CITY COUNCIL* shall consider the budget transmitted by the Mayor and may revise, alter, increase or decrease, to be completed. On or before Monday, *May 24, 2010

The *CITY CLERK* shall retabulate the budget as revised by the Council and transmit it to the Mayor for his approval or rejection. On or before Thursday, May 27, 2010

The *MAYOR* shall return the budget to the City Council with his approval, or if he shall disapprove the whole or any items therein, with a statement of his reasons therefore. On or before Tuesday, June 1, 2010

The *CITY COUNCIL* shall act upon any item or items that shall have been disapproved by the Mayor. On or before *Friday, June 4, 2010

TAX STATEMENT

After the *MAYOR* shall have approved the budget, or the *CITY COUNCIL* shall have acted upon any part or item thereof which shall have been disapproved, the *FINANCE DIRECTOR* shall make an itemized statement of the amount to be raised by taxation, and a similar statement for the issue of bonds. On or before *Friday, June 11, 2010

Begin City operations under the new control of the 2010-11 Budget Thursday, July 1, 2010

*Calendar dates that require scheduling of a formal session of CITY COUNCIL.
Note: Whenever deadline dates fall on Saturday, Sunday or Holiday, the applicable deadline shall be the next business day.

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Fiscal Year 2010-11 Budget Goals and Budget Guidelines

The Recommended Budget is based upon realistic assumptions, guided by the goal of rightsizing government. The Budget Department provided departments with information to assist in budget request preparation. Customized work plans were provided to assist in the self-assessment process, and convened a number of task forces to identify courses of action for change.

Budget development guidelines as outlined:

- ❖ Net Tax Cost – General Fund departments were provided with a specific net tax cost target. Departments receiving subsidies from the General Fund were also given a targeted amount.
- ❖ Positions – Departments were requested not to exceed the number of positions over the approved 2009-2010 Redbook total. Funding sources for new positions had to be identified. Funding for reallocation of positions was allowed, but departments will need Human Resources Department approval processes.
- ❖ Limited requests for travel and training.

Departments were given a number of standardized assumptions for use in preparing their requests, such as:

- ❖ Utility cost increases for water of 6.3% and sewerage 10.2% over the 2009-10 Budget.
- ❖ A general 3% inflation rate, unless other specific information was available.
- ❖ Salary and Wages based on current negotiated rates listed in Labor Relations' Gold Book, at 90% for budget furlough days, with Step Code D and appointee merit increases equal to 4% and step increases equal to 5%.
- ❖ Fringe and pension costs per a schedule.

- ❖ Automotive Equipment inventory only for the Vehicle Management Steering Committee unless grant or enterprise funded.
- ❖ Coleman A. Young Municipal Center rental rate.
- ❖ Central staff services factor to be recalculated by Finance

The budget was prepared using the BRASS software. The Budget Department held a series of training workshops in October 2009 for each department to electronically submit their budget requests. The Budget Department also held the annual Budget Training Seminar for departments on October 13, 2009 to explain the budget development process and to provide special technical assistance to Departments.

Recommended 2010-2011 Budget Items

The following are major items and programs included in the 2010-2011 Mayor's Recommended Budget.

INFRASTRUCTURE

The recommendation does not include General Obligation Bonds for Capital Improvement Projects or bonds for vehicle purchases.

FISCAL RESPONSIBILITY ITEMS

- ❖ **Salary and Wages** –The recommendation includes a reduction of \$50 million resulting from a net decrease of 1,152 positions and a Budget Required Furlough (BRF) days for civilian employees. There are 26 BRF days resulting in a savings of \$14.9 million
- ❖ **Property Tax Rate** – The Property Tax Rate will be 8.9157, an increase of 1.4384. These funds are used to pay the debt service associated with voter approved general obligation projects.

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The rate is based on funds needed to pay the debt service. The change in the rate is due to the decline in property valuation, increase in delinquency rate and elimination of the prior year surplus.

- ❖ **Debt Payments** – The Recommended Budget includes \$14 million for debt payment of Fiscal Stabilization Bonds. This is offset by declines in debt payments for DHRMS, RAN/TAN and Risk Management bonds.
- ❖ **Solid Waste Fee** – The Solid Waste Fee remains at \$240 for residential customers. Senior rate is \$120.
- ❖ **DOT Subsidy** – The DOT subsidy has been reduced by \$24.9 million to \$55.2 million. During FY 2009-10 DOT made changes to its schedule to reduce costs. The budget reflects those changes, elimination of variety of positions and use of grant funding.
- ❖ **Airport** - The Recommended Budget includes a proposal to enter into a management contract to operate the Airport. The city would maintain ownership of the Airport. This contract will reduce the subsidy by \$500,000.
- ❖ **Cultural Institutions** – The Recommended Budget includes \$450,000 to Historical Society for operation of the Main Historical Museum and Dossin Museum. A subsidy of \$765,000 is included for insurance and security costs for the Zoological Society. Charles H. Wright Museum of African American History has \$1,950,000 subsidy allocated. \$500,000 is recommended for operating support at the Detroit Institute of Arts.
- ❖ **Prior Year Deficit** – \$85 million is included for FY 2009-10 Accumulated Deficit.

MAYORAL INITIATIVES

- ❖ **Consolidating Human Rights functions** – The Recommended Budget includes a

transfer and merger of Executive Order 2 and 12 monitoring. This consolidation will allow one entity to assume the full responsibility for all internal and external Civil Rights issues pertaining to City employees, Detroit residents and visitors.

- ❖ **Mothballing of Mistersky Power plant** – To reduce cost and increase reliability, Public Lighting will mothball the Mistersky power plant in FY 2010-11. Mothballing of Mistersky steam turbine Units #6 and #7 entails the systematic shutdown and purging of all systems. Boilers and boiler tubes will be drained and dried. All fluids and gases will be flushed from all systems of both units. Inert gases and preserving fluids will be injected and all systems will be sealed. A shutdown with no preservation work would render the units useless with no value except for scrap. Mothballing verses just shutting the units down will allow the department to restart the units in the future should the economy and/or fuel costs make it cost effective. Even if the department decides not to restart the generators, mothballing would allow the department to investigate, in the future, the leasing of the generators to an independent power producer or another electric utility.
- ❖ **Recycling** – The Recommended Budget provides funding for the second year of the pilot recycling program. The city is testing 2 type of programs to determine the most cost effective and user friendly method. The eastside area has 18 gallon bins with manual weekly pickup. The westside areas have 96 gallon containers with automated biweekly pickup. The first year has an overall participation rate of 23%. The goal is to meet the Governor's mandate of 40% participation. To increase participation,

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the Department of Public Works will enhance communication and partner with 10 Detroit Public Schools in the pilot area.

- ❖ **Worker's Compensation Consolidation** – The Recommended Budget includes a transfer of worker's compensation responsibility from the Police and Fire departments into Finance Risk Management. This will reduce costs by consolidating contracts and standardizing processes, resulting in \$870,000 savings.
- ❖ **Risk Management** – A comprehensive review of risk management claims and processes will result in 5% reduction in claims saving \$3.75 million.
- ❖ **Targeted Business merges with Planning and Development** – Planning and Development has established a business services division which will integrate the Office of Targeted Business, development monitoring from Human Rights and the Welcome Center. This reorganization will provide for small business advocacy and support the neighborhood commercial revitalization efforts.
- ❖ **Communications Services** – The Recommended Budget includes a reorganization of the Detroit Cable Commission, consistent with deregulation in this area at the national level. This reorganization integrates publicity, graphics, photography and Total Copy Center with Media Services saving \$500,000.
- ❖ **Community Relations** – The Recommended Budget includes a consolidation of Neighborhood City Hall, 311 Call Center and Senior Citizens/Consumer's Advocacy. The function of community relations is community engagement and advocacy on behalf of residents seeking services and

assistance from city departments. A quality control section will be established to address open complaints and coordinate with operating departments.

- ❖ **Department of Environmental Affairs and Buildings and Safety Engineering Consolidation** – This initiative will integrate modern environmental perspectives into every aspect of B&SED's operations and will lead to management economies that small departments can not provide through sharing support services and executive leadership without impacting the mandated function.
- ❖ **Hospital Audit** – An administrative audit on hospital charges will be completed in FY 2010-11. Claims will be reviewed and eligibility of participants. It is estimated that this effort will save 5% in our healthcare program.
- ❖ **Income Tax Collections** – Coordinating with State on State tax returns that claim local tax credit and citizens who file with the state and not the city will generate additional revenue.
- ❖ **Property Tax** – Allowing e-filing of personal property taxes will enhance collections and provide a service to residents.
- ❖ **Delinquent Receivables** – Finance Accounts Receivables began an aggressive collection effort through employees and contractors to collect delinquent receivables throughout the city. This effort will continue in FY 2010-11 with enhanced revenue collection.
- ❖ **Restructuring and Consolidations** – The Recommended Budget includes \$85 million for Restructuring and Consolidations to be achieved in FY 10-11 to offset the Prior Year Deficits. These items include a continuation of the

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recommendations from the Crisis Turnaround Team, Office of Restructuring and other process improvement efforts.

LONG-TERM OPERATIONAL POLICY OF THE CITY

In the 1990s, the City began a shift to results-oriented program management, characterized by self-study and city service planning.

Mayor's Priorities:

- Public Safety
- Jobs
- Education
- Financial Solvency

Operational Planning Process

“Rightsizing” refers to the balance of expenses to available revenues consistent with customer service expectations. In May, 2009, Mayor Bing established a Crisis Turnaround Team comprised of 30 volunteers to review, evaluate and develop recommendations for improving the City's fiscal status. This team completed a report with short-term, mid-term, and long-term items. The City has implemented a number of these recommendations and is evaluating others. This was a first step in right-sizing city government. Another initial step was the Office of Restructuring initiative. This was an internal process of having working groups from departments look at duplication of services and early opportunities for consolidation. Ten Decision Units were formed in the Fall to evaluate opportunities for the 2010-11 Fiscal Year and beyond.

The city will move to multi-year strategic planning in Summer 2010. This effort will realistically project revenues out thru the year and mandatory expenses such as debt

payments. This will generate available appropriations for departmental operations. With this information, departments can begin to assess current service levels, look at more cost effective processes, examine how funding is used and potential revenue generation. Some of these projects will have to begin shortly to be implemented over the next two years.

Goals and performance measures. A citywide vision, mission and cornerstone goals were first stated under the Archer Administration's Goal-Based Governance Initiative in 1995, to direct agencies in the setting of operational goals and objectives. Agency operating goals are linked to citywide functions, as expressed in eight (8) program categories. Within the major program categories, it is now also possible to list all the services delivered by city agencies.

Performance indicators were attached to major measurable services for tracking. They were updated for the CitiTrak system of performance management used for major operations from 2003 to 2005. In 2004, these measures were sorted by type in every department, to develop more complete performance management systems:

- ❖ Inputs – resources allocated or service demands made of a program
- ❖ Outputs – units of activity directed toward program goals
- ❖ Outcomes – results or impacts of program activities
- ❖ Efficiencies – program costs related to units of activity

The Executive Budget presents these performance measures along with narrative descriptions of agency activities, initiatives and plans. The “Planning for the Future” section, developed under the strategic

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directions initiative in 1999, describes each agency's 3 - 5 year outlook and anticipates changes in agency operating environments. The 2011-12 Executive Budget will link measures and targets to each service delivered by an agency. In 2010-11, the list of services is only integrated into the BSE, DPW and PDD budget narratives.

Benchmarking. In 1999, city services were benchmarked in a Detroit Renaissance assessment, which identified major areas of opportunity in eleven agencies, as well as activities performed well by the City. The Budget Department has occasionally performed benchmarking studies for special projects.

Business process improvement. In 1995, the City used a "Continuous Improvement Process" to optimize resources in departments. In 1999, Labor-Management Quality Teams in six departments convened employees from all levels to study core processes: Finance, Fire, Transportation, Recreation, Buildings and Safety Engineering, the Detroit Zoological Institute.

The Bing Administration has looked at the following processes: asset management, procurement, accounts receivable small claims handling, CDBG allocation. Grainger consulting provided pro bono mapping of inventory management functions, and Compuware mapped major processes of Buildings and Safety Engineering.

Survey and opinion gathering. In January 2005, the city convened the Detroit Economic Forum at Wayne State University. Nationally recognized economists and policy experts engaged in discussion with local officials and leaders, focusing on the City's historic, current and projected fiscal situation

and how other major cities in the country are addressing fiscal challenges. A report of findings and policy options resulted.

In February 2005, the City convened meetings to explain the fiscal crisis to the public. Citizen input is also received in the budget process, since 1997, when the Budget Department began to administer a *Survey of Citizen City Service Priorities* in conjunction with the annual public budget meetings.

Organizational realignment. The Bing Administration convened task forces to look at the organization of community outreach activities, communications and dispatch, the health and human services function, workers compensation handling, administrative hearings in the city, and activities found in the Public Lighting Department.

The 2002 Committee on Operational and Financial Re-engineering, a broad-based group charged with reducing costs, eliminating redundant processes, and streamlining city operations, made several recommendations in 2003-04. Ongoing Budget Department research has yielded a number of reorganization proposals dealing with such things as code enforcement staffing, consumer affairs, elimination of the Communications Department, and creation of the General Services Department.

OPERATIONAL POLICY AND GOALS:

Current City functions continue to determine agency operating goals in FY 2010-11.

1. PROTECT INDIVIDUALS AND PROPERTY IN DETROIT
PREVENT AND CONTROL CRIME through Police Department precinct operations, specialized investigative and narcotics services, and the science and technology bureau
ENFORCE TRAFFIC LAWS AND ORDINANCES The Weights and Measures operation enforces truck safety The 36 th District Court handles small claims, misdemeanor crimes and preliminary felony exams in Detroit
PREVENT AND CONTROL FIRE through response to fire calls, code enforcement, education and investigation
PREPARE FOR WIDE-SCALE, HAZARDOUS COMMUNITY EMERGENCIES The Fire Department operates ambulance services and emergency management response capability The Office of Homeland Security coordinates resources around securing Detroit's borders and municipal facilities
2. MAINTAIN AND IMPROVE THE HEALTH OF DETROITERS
DELIVER PREVENTIVE HEALTH SERVICES Health programs include nutrition; prenatal care; vision, hearing and lead testing; and substance abuse coordination The Human Service Department's Head Start, Early Head Start and youth programs are preventive by design
DELIVER SERVICES THAT SUPPORT FAMILY AND NEIGHBORHOOD WELL-BEING Family Health Centers and inspection and licensing of pools, and environmental health hazards Human Services programs include weatherization, energy aid, drug treatment, homeless and other emergency needs
SUPPORT THE HEALTH CARE SYSTEM with Health Department leadership and clinical technical services
3. PROVIDE RECREATIONAL AND CULTURAL OPPORTUNITIES IN DETROIT
PROVIDE RECREATIONAL FACILITIES AND ACTIVITIES THROUGHOUT DETROIT Recreation Centers, programs and special events are available throughout Detroit.
PROMOTE CULTURAL EVENTS AND FACILITIES IN DETROIT The City owns the Detroit Institute of Arts and subsidizes its capital improvements. The Recreation Department has an operating agreement for the management of Eastern Market The Detroit Historical Museum, Dossin Museum, and Fort Wayne are owned and subsidized by the City The City has an operating agreement with the Zoological Institute for the main Zoo and the Belle Isle Nature Zoo
CONTRIBUTE TO THE EDUCATION OF DETROITERS The Detroit Public Library operates a branch library system and special central collections
4. DEVELOP ECONOMIC CAPACITY IN DETROIT
PROVIDE INDUSTRIAL AND COMMERCIAL ASSISTANCE The Detroit Building Authority (DBA) oversees capital improvements for city facilities The Planning and Development Department works with developers and offers targeted infrastructure support
PROVIDE JOB OPPORTUNITIES FOR DETROITERS The Human Rights Department monitors discriminatory barriers to employment and entrepreneurial development
PROVIDE PROFESSIONAL ENRICHMENT OPPORTUNITIES FOR DETROITERS The Detroit Workforce Development Department administers targeted federal job training programs
5. FACILITATE TRANSPORTATION IN DETROIT
MAINTAIN PASSABILITY OF STREETS through design, street improvements, and snow and ice removal
OFFER MASS TRANSIT through the Department of Transportation bus system and services to special populations
OFFER AN AIR TRANSPORTATION OPTION The City will have an operating agreement for the Detroit City

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Airport
MAINTAIN AND MONITOR PARKING FACILITIES through the Municipal Parking Department
6. PROTECT THE SUPPLY AND CONDITIONS OF BUILDING IN DETROIT
ENFORCE BUILDING AND SAFETY CODES through the inspection activities of Buildings & Safety Environmental Enforce construction codes through the planning and permitting services The Business License Center provides consumer safety protections through regulation
7. IMPROVE THE PHYSICAL ENVIRONMENT OF DETROIT
HANDLE SOLID WASTE EFFECTIVELY Solid Waste collection occurs through refuse collection operations The Greater Detroit Resource Recovery Authority operates the incinerator with the City as its largest customer
REGULATE THE ENVIRONMENTAL ASPECTS OF LAND USE The Environmental Affairs Department enforces environmental compliance and promotes brownfield cleanup The Department of Administrative Hearings adjudicates blight violations The Zoning Appeals Board rules on citizen appeals of land use determinations
OFFER STREET LIGHTING through the Public Lighting Department
ENVIRONMENTAL PROTECTION General Services Department staff clean up vacant lots through grass cutting and debris removal
PROVIDE HEALTHY WATER SUPPLY AND SEWAGE DISPOSAL through the Water & Sewerage Department
DEMOLISH DANGEROUS BUILDINGS through the Demolition Division of Buildings & Safety Environmental
8. CONTINUOUSLY IMPROVE MANAGEMENT OF PUBLIC SERVICES
PROVIDE EXECUTIVE LEADERSHIP TO CITY AGENCIES The Human Resources Department recruits, selects, develops and guides the management of personnel The Law Department is the Corporation Counsel for all municipal affairs The Mayor's Executive Office directs administration, operations, development, and fiscal affairs Planning and Development Department prepares the City's Master Plan
MANAGE THE OVERHEAD AND INFRASTRUCTURE OF CITY AGENCIES The General Services Department manages and maintains municipal buildings and grounds, major stores and vehicles Information Technology Services Department supports all personal, network and specialized technology needs
MONITOR FIDUCIARY TRANSACTIONS EFFECTIVELY The Budget Department plans and monitors programs and projects in the annual operating and capital budgets The Finance Department, including Bond Interest and Redemption, processes payments, makes cash available, and accounts for City transactions The Auditor General monitors the internal controls of agencies and of city fiscal management systems
OFFER COMMUNITY EXTENSION SERVICES Consumer Advocacy includes complaint mediation and public education about business practices Mayor's Customer Service Centers in the community offer a variety of city services and information Senior Citizens Advocacy monitors and mediates the concerns of Detroit's senior citizens Communication Services brings city government information to the community through various media The Detroit City Council is supported by the City Plan Commission, an advisory planning organization The City Ombudsperson investigates citizens complaints with city services
DEVELOP AND REPRESENT PUBLIC POLICY The City has a Legislative Liaison to the State of Michigan executive and legislature The Board of Ethics recommends improvements in employee or agency standards of conduct The Detroit City Council is charged with the Legislative function of the City The Detroit City Clerk keeps the official record for city affairs The Elections Commission conducts local elections in accordance with State law
MAKE TARGETED CONTRIBUTIONS AND SUBSIDIES for important public services

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LONG-TERM FINANCIAL POLICY OF THE CITY

These goals serve as guiding principles for fiscal policy decisions:

Budgetary Policy

All agencies supported by City resources must function within the limits of the financial resources identified or specifically to them.

❖ Maintain Balanced Operations

- Total appropriations in all funds are limited to revenues estimated in the current budget period.
- General Fund expenditures and subsidy appropriations for mandated and priority programs are to be made against current revenue sources.

❖ Self Sufficiency of Other Funds

- Special Revenue Funds are supported by special levies and fees, grants or intergovernmental revenues. Expenditures in these funds are strictly limited to the mandates of the funding sources. Special Revenue Funds are not be used to subsidize other funds, except as required or permitted by program regulations.
- Enterprise Funds are expected to derive at least 50% of their revenues from charges, user fees or intergovernmental revenues. Enterprise Funds should strive to become self-supporting entities through annual reviews of its fee structure, charges for services, and other operating revenues and expenditures.

❖ Maximize Revenue collections.

- Generate additional revenues such as new grant or foundation funding, to increase services.
- Aggressively collect delinquent revenue owed to the City. New procedures are being developed to actively pursue the collection of all revenues and maintain an acceptable collection rate.
- Sufficient user charges and fees shall be pursued and levies to support the full cost (operating, direct, indirect, and capital) of operations. Market rates and charges levied by other public and private organizations for similar services should be considered when establishing fees and charges.
- New and expanded unrestricted revenue streams should be first applied to support existing programs prior to funding new or expanded programs.

❖ Financial Planning

- Multi-year operating cost projections shall be prepared and updated each year to identify the impact on resources.

❖ Capital Expenditures

- Capital expenditures will consider future operational costs or savings prior to implementation of those improvements.
- Operating expenditures will be programmed to include costs of fully maintaining City facilities and equipment. A cost benefit analysis of replacement cost versus required maintenance costs will be performed to determine maintenance levels, and

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- the long-term costs of deferred maintenance. Normal maintenance will be funded through the operating budget.
- ❖ **Rightsize City Government.**
 - Use management tools such as reorganization, reengineering, benchmarking and shared services to fit the costs of doing business to available revenues.
 - Convene key stakeholders to collaborate on ideas and establish partnerships for change.
 - ❖ **Build Financial Reserves.**
 - Gradual build up of funds in the Budget Stabilization Fund.
 - Maintain adequate reserves in the Insurance Reserve Fund.
 - Eliminate unfunded liabilities of the Pension Fund.
 - ❖ **Provide Tax Relief while maintaining essential services.**
 - Continue to explore permanent dedicated funding sources for the convention center and for public transportation.
 - Continue to explore regional solutions that ensure the existence of quality services at equitable costs.
 - Utilize property tax rollbacks for neighborhoods where it can be a means of stabilization.
 - ❖ **Provide Stewardship of Grants and Trusts**
 - Manage grants to comply with the laws, regulations and guidance of the grantor, and all gifts and donations will be managed and expended according to the wishes and instructions of the donor.
- Prior to the acceptance of proposed gifts and donations and governmental grants, a fiscal review will be conducted. The review should consider matching requirements, impacts on revenues and expenditures for the next five years, whether the objectives of the gifts, donations or grants meet the strategic goals of the City, and any potential impact of loss of funds.
 - Maximize revenue from State, Federal and nonprofit sources through the leadership of key executive staff.
- ❖ **Financial Reporting.**
 - Continue to improve the DRMS financial reporting system.
 - Monitor expenditures, revenue and performance of all municipal problems on an ongoing basis.
 - ❖ **Operate Resource Recovery and Public Lighting utilities at efficient capacity.**
 - Increase the efficiency of the Resource Recovery facility through the marketing of excess capacity to outside entities.
 - Improve reliability and safety at the lowest possible cost.
 - Continue the upgrading of residential and main street lighting.
 - Comply with all applicable Federal, State and local environmental and safety requirements.

Revenue Policy

The City's primary revenue policy goal is to maintain a diversified, revenue system to protect it from possible short-term fluctuations in any of its various revenue

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sources. To accomplish this, revenues are monitored on a continuous basis to insure that receipts from each revenue source are at maximum levels. An understanding of the economic and legal factors which directly and indirectly affect the level of revenue collections is an important part of the City's revenue policy. The following policies are those that are utilized in the budget process:

- ❖ A diversified yet stable revenue system to protect the city from possible short-term fluctuations in any of its revenue sources.
- ❖ The City will, after having considered all possible cost reduction alternatives, explore the possibility of obtaining new or expanded revenue sources as a way to help insure a balanced budget.
- ❖ Cost recovery revenue sources will be analyzed on an annual basis and modified as necessary to insure that revenue collections reflect the cost of providing associated City services.
- ❖ The City will actively oppose State and/or Federal legislation which would mandate costs to the City without providing or increasing a revenue source to offset those mandated costs. The city will continue lobbying efforts to protect current revenues received from State and Federal sources.
- ❖ The City will follow an aggressive policy of enforcement of revenue regulations and collection of revenues.

User Fee Cost Recovery Policy.

Fees will be reviewed and updated on an ongoing basis to ensure that they keep pace

with changes in the cost-of-living as well as changes in methods or levels of service delivery. In setting user fees and cost recovery levels, the following factors will be considered:

- *Community-wide versus special benefit.* The level of user fee cost recovery should consider the *communitywide* versus *special service* nature of the program or activity. The use of general purpose revenues is appropriate for community-wide services, while user fees are appropriate for services that are of special benefit to easily identified individuals or groups.
- *Service recipient versus service driver.* The concept of *service recipient* versus *service driver* should also be considered in fee setting. The applicant for a permit may not be the beneficiary of the City's development review efforts: the community is the primary beneficiary. However, the applicant is the *driver* of development review costs, and as such, cost recovery is appropriate.
- *Effect of pricing on the demands for services.* The level of cost recovery and related pricing of services can significantly affect the demand and subsequent level of services provided. Full cost recovery has the specific advantage of ensuring that the City is providing services for which there is genuinely a market that is not overly-stimulated by artificially low prices. Conversely, high levels of cost recovery negatively impact delivery of services to lower income groups, and work against public policy if services are specifically targeted to lower income groups.
- *Feasibility of collection and recovery.* - Although a high level of cost recovery

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may be appropriate for specific services, it may be impractical or too costly to establish a system to identify and charge the user. Accordingly, the feasibility of assessing and collecting charges should also be considered in user fees, especially if significant program costs are intended to be financed from that source.

Very low cost recovery levels are appropriate under the following circumstances:

- ❖ There is *no* intended relationship between the amount paid and the benefit received. Almost all “social service” programs fall into this category as it is *expected* that one group will subsidize another.
- ❖ Collecting fees is not cost-effective or will significantly impact the efficient delivery of the service.
- ❖ There is *no* intent to limit the use of (or entitlement to) the service. Most “social service” programs fit into this category as well as many public safety emergency response services and access to neighborhood and community parks.
- ❖ The service is non-recurring, generally delivered on a “peak demand” or emergency basis, cannot reasonably be planned for on an individual basis, and is not readily available from a private sector source. Many public safety services also fall into this category.
- ❖ Collecting fees would discourage compliance with regulatory requirements and adherence is primary self-identified, and as such, failure to comply would not be readily detected by the City. Many small-scale licenses and permits might

fall into this category.

The use of service charges as a major source of funding service levels is especially appropriate in the following circumstances:

- ❖ The service is similar to services provided throughout the private sector.
- ❖ Other private or public sector alternatives for the service could or do exist.
- ❖ For equity or demand management purposes, it is intended that there be a direct relationship between the amount paid and the level and cost of the service received.
- ❖ The use of the service is discouraged. Police responses to disturbances or false alarms might fall into this category.
- ❖ The service is regulatory in nature and voluntary compliance is not expected to be the primary method of detecting failure to meet regulatory requirements. Building permit, plan checks, and subdivision review fees for large projects would fall into this category.

The following general concepts will be used in developing and implementing service charges.

- ❖ Revenues should not exceed the reasonable cost of providing the service.
- ❖ Cost recovery goals should be based on the total cost of delivery the service, including direct costs, departmental administration costs, and organization-wide support costs such as accounting, personnel, data processing, vehicle maintenance, and insurance.

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- ❖ The method of assessing and collecting fees should be simple as possible in order to reduce the administrative cost of collection.
- ❖ Rate structures should be sensitive to the “market” for similar services as well as to smaller, infrequent users of the service.
- ❖ A unified approach should be used in determining cost recovery levels for various programs based on the factors discussed above.

Debt Management Policy

The City of Detroit has established the following debt management plan guidelines pertaining to the issuance and administration of debt:

- ❖ *Policy Goals* - To establish practices which will enable the City to borrow funds to maintain and enhance the City’s physical infrastructure, while minimizing the cost to taxpayers, ratepayers and users of publicly financed projects.
- ❖ *Purpose of Debt* - To issue debt only for capital purposes, and not to finance current operations or working capital.
- ❖ *Compliance with Laws* - To follow all applicable Charter, State and Federal laws and regulations, including those regulations governing the amount and purpose for which debt may be issued and all federal regulations relating to the maintenance of the tax exempt status of bonds. Debt issuance shall be subject to all of the regular approvals and authorizations required under federal, state and local laws.
- ❖ *Investor/Rating Agency/Credit Provider Relations* - To provide timely, accurate and pertinent information to interested investors, rating agencies, and credit providers. The City will follow the disclosure guidelines approved by the Government Finance Officers Association to the greatest extent possible in disseminating information and will adhere to the City’s Continuing Disclosure Undertaking commitments.
- ❖ *Security/Repayment Characteristics* – Revenue debt, which is self-supporting, should be the tool of choice to the greatest extent possible. Voter-approved, unlimited tax bonds or bonds which are expected to be paid from non-general fund sources are generally the preferred options to finance capital projects which are not or which may not be self-supporting. Limited tax obligations which are payable only from current general fund tax dollars will be considered only if other options are not available.
- ❖ *Credit Support* – External credit support should be obtained when it is determined that use of such support produces present value savings; however, the importance of maintaining market access for and name recognition of the underlying credit will be considered in evaluating the benefit of credit support.
- ❖ *Repayment Terms* - To repay bonds in a period not exceeding the average life of the project, generally not exceeding 25 years for general obligation bonds and 30 years for revenue bonds. Except to achieve overall level debt service with

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existing bonds, the City will avoid issuing debt which provides for balloon principal payments in the final year(s) of maturity. The City will use level or declining total debt service structures (which may take into account previously issued debt), except when an increasing debt payment structure fits an overall strategy of a project. In addition, during the period of construction, the City may choose to pay interest only or may capitalize interest, if appropriate.

- ❖ *Debt Levels* - To reduce general debt ratios to levels consistent with the average of cities of similar size and responsibilities. The goal of issuing debt without increasing the property tax burden will be factored into planning the sizing and scheduling of general obligation, unlimited tax bond issues.
 - ❖ *Debt Instruments* - To issue debt with fixed rates and terms, except that variable rate debt may be issued if the total amount of true variable rate debt does not exceed 20% of the aggregate amount of debt payable from a particular source. Variable rate debt will be counted as fixed rate debt if it is synthetically converted to a fixed rate obligation through the use of an interest rate exchange or similar agreement, or if the period of interest rate exposure does not exceed 2 years. Debt instruments utilizing imbedded swaps or having other less traditional characteristics may be issued, provided the City is not unduly
- exposed to third party risk and that utilization of such an instrument does not precipitate an adverse rating agency reaction.
- ❖ *Short Term Debt/Leasing* - To minimize the need for short term debt by incorporating a goal of avoiding such debt in financial and cash flow planning. Leasing or lease purchase financing may be considered on a case-by-case basis for equipment and special projects, taking into account the expected life of the equipment and/or the nature of the project.
 - ❖ *Investment of Bond Proceeds and Debt Service Funds* - To invest funds in accordance with State law, bond indenture provisions and the City's written investment policy. All funds are invested with risk avoidance being of the highest priority, but taking into account cash needs and the potential for maximizing yields. Generally, the City's investment policy restricts the maximum term of investments in bond proceeds accounts to 3 years, in debt service accounts to the date such funds are required, and in debt reserve accounts to 5 years.
 - ❖ *Review of Management* - To review the debt management plan at least once every 2 years, and to include the formal debt policy as a part of or an annex to the City's Five Year Capital Agenda.

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